

**The Quality of Toll-Free Tax Law Assistance
During the 2002 Filing Season Improved;
However, More Can Be Done to Improve
Quality and Enhance Service**

August 2002

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 6, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Quality of Toll-Free Tax Law Assistance
During the 2002 Filing Season Improved; However, More Can
Be Done to Improve Quality and Enhance Service
(Audit # 200240008)

This report presents the results of our review to determine the quality of the Internal Revenue Service's (IRS) toll-free telephone assistance for tax law questions during the 2002 Filing Season.¹

Each year, the IRS receives calls from millions of taxpayers who seek assistance in understanding the tax law and meeting their tax obligations. The IRS handled over 108 million calls during Fiscal Year 2001 and approximately 41 million calls during the 2002 Filing Season (of which over 6 million were from taxpayers calling with questions about the tax law and wishing to speak with a telephone assistor).

The IRS' goal is to make its telephone operation a "world-class customer service organization" that provides taxpayers with accessible and accurate tax assistance comparable to the best practices in the private and public sectors. The IRS defines quality assistance as the telephone assistor providing the taxpayer with a correct and complete answer to his or her question and answering the question following all IRS internal procedures. It further defines the quality of tax law calls as providing taxpayers with correct and complete tax law (technical) information.

In summary, the IRS improved the quality of assistance it provided to taxpayers in responding to tax law questions through its toll-free telephone system, when compared to the quality of assistance provided during the 2001 Filing Season. We monitored a judgmental sample of 736 toll-free tax law calls between January 14 and

¹ A filing season generally refers to the first 4 months of each calendar year (usually January 2 through April 15) when the majority of Individual Income Tax Returns are filed.

March 14, 2002 (approximately 2.6 million calls for the 12 tax law topics we reviewed went to telephone assistors during this period). We found that the quality rate was 78 percent, 4 percent higher than the 74 percent² rate the IRS reported for the 2001 Filing Season. For the 2002 Filing Season, the IRS reported an 81 percent quality rate during the January through March 2002 period, also an improvement over last year's filing season. The difference in the quality rate indicated by our judgmental sample (based on 736 calls) and the quality rate the IRS reported (based on 12,762 calls) for the same period is relatively insignificant in terms of any impact on management's decisions in managing the program or striving to improve performance.

Although the IRS has achieved improvements in its quality rate, there is more it can do to help assure taxpayers are provided with complete and accurate responses to tax law questions and to move closer to achieving world-class customer service. In 22 percent of the 736 calls we monitored, telephone assistors did not give taxpayers complete and accurate responses to their tax law questions. This was because they either did not follow the probe guide³ when it contained the tax law topic addressed in the call or did not correctly interpret or apply the tax law when they referred to other references because the probe guide did not fully address the tax law topic.

The IRS also has an opportunity to enhance the service it provides to taxpayers. For 25 calls, the IRS could have provided time frames to taxpayers for expecting a follow-up contact from the IRS or the receipt of a tax form or publication that was requested. Also, there were eight calls where the IRS missed the opportunity to educate the taxpayer on problematic compliance areas and potentially avoid compliance contacts in the future. These calls may be among the few opportunities the IRS has to educate the taxpayer and potentially avoid future contact.

Management's Response: IRS management agreed with our first recommendation and plans to consider our input for improvements as part of their probe guide review and improvement process. In addition, special efforts are being aimed at ensuring electronic links are fully operational when the revised guide is released.

IRS management does not agree with our second recommendation. They do not plan to require assistors to provide time frames for follow-up contact, as they do not believe it is an essential element for a correct and complete response. Additionally, they do not plan to address educating callers on known compliance problems unless the caller raises the issue. The IRS believes to do so would increase the length of contacts without any demonstrated correlation to future compliance. The IRS also believes that probing for compliance issues beyond questions posed by callers may result in negative perceptions of IRS service. They also disagree with the recommendation to evaluate

² A TIGTA report, *The Internal Revenue Service Could Improve Its Process to More Reliably Measure the Accuracy of Its Toll-Free Tax Law Assistance* (Reference Number 2002-40-051, dated February 2002), reported that weaknesses in the IRS' sampling strategy for the 2001 Filing Season had the potential to bias the accuracy of its quality results.

³ The probe guide is a guidance document the IRS requires a telephone assistor to use when responding to a taxpayer's question that relates to tax law topics covered in the guide. The guide helps assure a complete and accurate response is provided based on the caller's circumstances.

the need to add tax law topics that are not covered by the probe guide. They point out that they already have a process to review and update the guide and do not agree there is a need for a new or revised process.

The Commissioner, Wage and Investment Division, also disagrees with our outcome measure, stating, "I do not believe achieving 100 percent accuracy is attainable despite our desire to do so. As a result, I do not agree with the premise of your benefit analysis that assumes IRS would provide perfect answers if we followed your recommendations."

Office of Audit Comment: We disagree with management's position on our second recommendation. We believe that providing time frames for follow-up contact is a vital part of customer service. Also, we do not advocate probing areas unrelated to the initial question posed by callers. However, many opportunities exist to expand a call into related areas that are known problematic issues and help to further educate taxpayers and potentially avoid compliance problems with taxpayers who have already shown an interest in obtaining advice. We disagree that taxpayers would negatively view related probing and education. In addition, we do not specifically recommend that the IRS develop a new review process or revise the existing one. Our recommendation is that the IRS evaluate the inclusion of additional topics, especially those that relate to potential problem areas. This could be done as part of the current review process, as with the corrective action to Recommendation 1.

We recognize that our recommendation to enhance service could increase the time spent by telephone assistors when answering these types of questions. However, we believe this would help the IRS achieve its goal of one-stop service and move the IRS closer to providing top-quality service to each taxpayer in every transaction. Moreover, we believe that, from a taxpayer's point of view, this would be time well spent.

Regarding the IRS' disagreement with our outcome measure, we do not claim that the IRS would achieve 100 percent accuracy by following our recommendations. However, our analysis provided the causes cited for the errors we identified. Our recommendations address these causes, which accounted for 100 percent of the errors we identified. We believe appropriate corrective action to our recommendation would result in these types of errors being dramatically reduced if not eliminated. However, we have not claimed 100 percent achievement as follows: (1) we did not use our 22 percent error rate (which was based on a judgmental sample) but rather used the lower 19 percent error rate reported by the IRS and (2) we have claimed that these benefits are potential rather than actual achievements. We believe that our recommendation has the potential for positively affecting the number of taxpayers we reported.

While we still believe our recommendations are worthwhile, we do not intend to elevate our disagreement concerning these matters to the Department of the Treasury for resolution.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions

or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done To Improve Quality and Enhance Service**

Table of Contents

Background	Page 1
The Quality of Toll-Free Tax Law Assistance Improved During the 2002 Filing Season, When Compared to the 2001 Filing Season.....	Page 3
Telephone Assistors Did Not Always Provide Taxpayers With Complete, Accurate, and Appropriate Responses	Page 8
<u>Recommendation 1:</u>	Page 14
There Is Opportunity for the Internal Revenue Service to Enhance Service to Taxpayers.....	Page 14
<u>Recommendation 2:</u>	Page 16
Appendix I – Detailed Objective, Scope, and Methodology.....	Page 18
Appendix II – Major Contributors to This Report	Page 20
Appendix III – Report Distribution List	Page 21
Appendix IV – Outcome Measures.....	Page 22
Appendix V – Volume of Toll-Free Tax Law Calls Handled by Telephone Assistors, by Tax Law Topic Areas, During the 2002 Filing Season.....	Page 24
Appendix VI – Management’s Response to the Draft Report.....	Page 26

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

Background

Each year, millions of taxpayers call the Internal Revenue Service's (IRS) toll-free telephone system seeking assistance in understanding the tax law and meeting their tax obligations. The IRS handled over 108 million calls through its automated systems¹ and by telephone assistors at 26 call sites² during Fiscal Year (FY) 2001. During an individual income tax filing season, there are over 10,000 employees answering calls. We estimated the toll-free telephone operation for FY 2001 cost at least \$627 million.³ In the 2002 Filing Season,⁴ the IRS handled approximately 41 million calls through automated systems and telephone assistors.

When a taxpayer calls the IRS' toll-free number for tax law assistance, his or her call is answered by an automated, menu-driven system, which offers the taxpayer a choice of listening to pre-recorded tax information or speaking with a telephone assistor. The taxpayer is also given the option to receive assistance in either English or Spanish. The calls should be routed to the call site with the shortest wait time among those assigned to cover the designated toll-free line for the taxpayer's tax law topic. Fourteen call sites handled over 6 million tax law calls from taxpayers wishing to speak with a telephone assistor during the 2002 Filing Season.

The IRS' goal is to make its telephone operation a "world-class customer service organization" that provides taxpayers with accessible and accurate tax assistance comparable to the best practices in the private and public sectors. The IRS defines quality assistance as the telephone assistor providing the taxpayer with a correct and complete

¹ Automated systems include the Telephone Routing and Interactive System and the Teletax Interactive Application.

² A call site is any location within the IRS where quantities of incoming and outgoing calls are handled by people, telephones, and computers. The IRS' call sites provide assistance to taxpayers by answering questions, providing assistance, and resolving account-related issues.

³ *Management Advisory Report: The Estimated Cost of the Internal Revenue Service's Toll-Free Telephone Service Exceeds \$600 Million* (Reference Number 2001-30-139, dated August 2001).

⁴ A filing season generally refers to the first 4 months of each calendar year (usually January 2 through April 15) when the majority of Individual Income Tax Returns (Form 1040) are filed.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

answer to his or her question and answering the question following all IRS internal procedures. It further defines the quality of tax law calls as providing taxpayers with correct and complete tax law (technical) information.

However, over the years, the IRS has faced challenges in providing quality service to meet the needs of these taxpayers.⁵ The quality of service to taxpayers remains among the major management challenges the IRS faces in 2002.⁶ Also, the quality of assistance provided to taxpayers through the IRS' toll-free telephone system is ranked 4th among the Taxpayer Advocate's top 23 most serious problems encountered by taxpayers.⁷

The IRS' quality measure is an estimate based on a sample of nationwide calls that a centralized quality review staff monitors and scores for accuracy. During FY 2001, the IRS reported a toll-free tax law quality rate of 75 percent. For FY 2002, the IRS hopes to achieve a 78 percent quality rate.

As previously mentioned, during the 2002 Filing Season, IRS telephone assistors handled over 6 million tax law calls. To monitor for quality, the IRS selects samples of calls routed to telephone assistors who are assigned to many of the tax law topic areas; however, only the results of the monitoring of 12 of the tax law topic areas made up the quality measure. Appendix V provides a listing of the tax law topic areas and the applicable volume of calls the IRS handled for each of them during the 2002 Filing Season.

The audit was conducted in the IRS' Wage and Investment (W&I) Division Headquarters in Atlanta, Georgia, and the

⁵ *IRS Telephone Assistance Limited Progress and Missed Opportunities to Analyze Performance in the 2001 Filing Season* (GAO-02-212, dated December 2001).

⁶ In a memorandum dated January 11, 2002, the Treasury Inspector General for Tax Administration (TIGTA) provided the Commissioner of the IRS with its listing of the major challenges facing IRS management in FY 2002. One of the challenge areas listed was providing quality customer service.

⁷ Department of the Treasury, IRS. December 2001. National Taxpayer Advocate FY 2001 Annual Report to Congress. The Taxpayer Advocate exists to help taxpayers by working to clear up problems that have not been resolved through established IRS channels.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

The Quality of Toll-Free Tax Law Assistance Improved During the 2002 Filing Season, When Compared to the 2001 Filing Season

14 IRS toll-free telephone call sites that answered tax law questions between January and March 2002.

The audit was conducted between January and April 2002 and in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The IRS improved the quality of assistance it provided to taxpayers in responding to tax law questions through its toll-free telephone system, when compared to the quality of assistance provided during the 2001 Filing Season. We monitored a judgmental sample of 736 toll-free tax law calls between January 14 and March 14, 2002 (approximately 2.6 million calls for the 12 tax law topic areas we reviewed went to telephone assistors during this period). We found the quality rate was 78 percent, 4 percent higher than the 74 percent⁸ rate the IRS reported for the 2001 Filing Season. For the 2002 Filing Season, the IRS reported an 81 percent quality rate (during the January through March 2002 period), also an improvement over last year's filing season. The difference in the quality rate indicated by our sample (based on 736 calls) and the quality rate the IRS reported (based on 12,762 calls) for the same period is relatively insignificant in terms of any impact on management's decisions in managing the program or striving to improve performance.

We monitored the 736 calls generally between the hours of 7:00 a.m. and 4:59 p.m. Monday through Friday. We also monitored during 3 weekday evenings between 5:00 p.m. and 11:59 p.m. and 3 Saturdays between 9:00 a.m. and 4:59 p.m. We did not conduct reviews on Sundays because the IRS did not provide toll-free tax law assistance using telephone assistors during the Sundays covered in our review period.

⁸ In a TIGTA report, *The Internal Revenue Service Could Improve Its Process to More Reliably Measure the Accuracy of Its Toll-Free Tax Law Assistance* (Reference Number 2002-40-051, dated February 2002), we reported that weaknesses in the IRS' sampling strategy for the 2001 Filing Season had the potential to bias the accuracy of its quality results.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

We included calls in our sample from all 14 IRS call sites that answered tax law topics pertaining to individual taxpayers. Our sample also covered all 12 tax law topic areas handled by telephone assistors at these call sites. The following table provides a breakdown of the number of calls in our sample by tax law topic area.

Figure 1: Total Calls Sampled Between January 14 and March 14, 2002 by Tax Law Topic Area

Tax Law Topic Area	Number of Calls in Sample
Filing Status and Dependents	209
Small Business	117
Credits and Standard Deductions	95
Interest and Dividends	87
Tax Law Backup	68
Pensions and Social Security Benefits	52
Individual Retirement Arrangement (IRA)	39
Earned Income Tax Credit (EITC)	37
Estimated Taxes	23
Schedule D, Sale of Home	8
Advance Technical – Small Business/ Self-Employed	1
Advance Technical – Wage and Investment	0*
Total	736

* There were no calls available to monitor for this tax law topic area during the assigned monitoring periods.

We used the IRS' criteria for assessing the quality of the responses provided during these calls. As previously mentioned, the IRS defines quality assistance as the telephone assistor providing the taxpayer with a correct answer to his or her question and answering the question following all IRS internal procedures. It further defines the quality of tax law calls as providing taxpayers with correct and complete tax law (technical) information.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

When we compared the results from our sample by tax law topic areas to the IRS' quality results from the 2001 Filing Season,⁹ we noted the following:

- Four of the tax law topics showed improvements in quality. The Interest and Dividends topic area showed the most improvement, at 9 percent. The other topic areas that improved were Filing Status and Dependents, Tax Law Backup, and Pensions and Social Security Benefits. The improvements ranged between 1 and 6 percent.
- The quality rates for the EITC and the Small Business topic areas remained the same, at 76 and 80 percent, respectively.
- The quality rates for the Credits and Standard Deductions and the Estimated Taxes topic areas dropped 5 percent to 70 and 65 percent, respectively.

The IRS' quality rate for the 2001 Filing Season was based on quality reviews of samples from eight tax law topic areas. For the 2002 Filing Season, the IRS expanded its quality reviews to 12 tax law topic areas. The following table provides a complete comparison of the IRS' 2001 and our 2002 Filing Seasons quality results.

⁹ During the 2001 Filing Season, the IRS' centralized quality review site program monitored only 8 tax law topics.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

**Figure 2: Comparison of the IRS' 2001 to the
TIGTA 2002 Filing Seasons Quality Results
by Tax Law Topic Area**

Tax Law Topic Area	IRS 2001 Results¹⁰	TIGTA 2002 Results	Change
Interest and Dividends	74%	83%	+9%
Filing Status and Dependents	72%	78%	+6%
Tax Law Backup	71%	76%	+5%
Pensions and Social Security Benefits	78%	79%	+1%
EITC	76%	76%	0%
Small Business	80%	80%	0%
Credits and Standard Deductions	75%	70%	-5%
Estimated Taxes	70%	65%	-5%
Advance Technical – Small Business/ Self-Employed	Not Applicable	100%	Not Applicable
Advance Technical – Wage and Investment	Not Applicable	Not Applicable*	Not Applicable
IRA	Not Applicable	85%	Not Applicable
Schedule D, Sale of Home	Not Applicable	100%	Not Applicable

* There were no calls available to monitor for this tax law topic area during the assigned monitoring periods.

The IRS informed us that it believes the following actions it took in preparing for the 2002 Filing Season contributed to the improved quality:

- Provided improved and timely training – Training material was improved and included a focus on common errors. Emphasis was placed on completing all training

¹⁰ Data obtained from the IRS' Quality Review Database system.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

well before the filing season start-up to give new telephone assistors experience prior to January 2002.

- Implemented a pre-screen hiring process – Applicants for telephone assistor positions in selected sites were pre-screened for relevant aptitudes prior to interviews and selection.
- Provided better tools for telephone assistors to conduct on-line research of tax topics – Enhancements were made to improve the usability of the on-line research tools.
- Implemented pre-filing season call site level action plans – Executives conducted pre-filing season conferences. As a result, each site developed detailed filing season readiness plans identifying actions required for filing season readiness. Specific improvement areas were identified for each site.
- Used a proactive employee certification and call site certification for filing season readiness – Comprehensive readiness visits were conducted to ensure that call sites were on-target in their preparations for the filing season. Each call site also conducted a review of each employee to ensure that they were qualified to staff the tax law topic area to which they were assigned. Each employee was certified prior to assignment.
- Implemented specialized workloads – Enhancements to telephone equipment have enabled calls to be routed with greater precision to call sites and to telephone assistors that specialized in specific areas of the tax law.
- Assigned application ownership to managers – Managers were assigned a specific tax law topic area in which to monitor quality performance and analyze results. During this process, managers conducted trend analyses and problem identification and took corrective actions.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

Telephone Assistors Did Not Always Provide Taxpayers With Complete, Accurate, and Appropriate Responses

Although the IRS has achieved improvements in its quality rate, there is more it can do to help assure taxpayers are provided with complete and accurate responses to tax law questions and to move closer to achieving world class customer service. In 164 (22 percent) of the 736 calls we monitored, telephone assistors did not give taxpayers complete and accurate responses to their tax law questions. During the calls, the telephone assistors either did not follow the probe guide¹¹ when it contained the tax law topic addressed in the call or did not correctly interpret or apply the tax law when they referred to tax publications, instructions, and other tax references because the probe guide did not fully address the tax topic.

Telephone assistors did not follow the probe guide

In 322 calls we monitored, telephone assistors were required to follow the probe guide to answer the taxpayer's question. In 84 (51 percent) of the 164 incorrect calls, telephone assistors did not use the probe guide to help assure they provided the taxpayer with a complete and correct response to the tax law question. In most cases, if the telephone assistor had followed the guide, the taxpayer would have been given a complete and correct answer based on the circumstances he or she provided during the telephone call. For example:

- A taxpayer called to find out if she was required to pay a 10 percent penalty on an IRA withdrawal. She was unemployed and wanted to know if she qualified for any of the penalty exceptions. The telephone assistor advised the taxpayer that her hardship did not qualify as an exception, even though the taxpayer never stated that her hardship was the reason she withdrew from her IRA. The telephone assistor failed to conduct probes to determine whether the taxpayer met any one of the many exceptions for an early distribution of an IRA before age

¹¹ The probe guide is a guidance document the IRS requires a telephone assistor to use when responding to a taxpayer's question that relates to tax law topics covered in the guide. The guide helps assure a complete and accurate response is provided based on the caller's circumstances.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

59½. This probe for IRA withdrawals appears in the probe section covering IRAs.

- The taxpayer inquired about a relative's eligibility to claim the EITC. The taxpayer stated that her relative's non-custodial child often spent weekends and holidays with the relative (parent) but probably did not live with him for more than 6 months. The telephone assistor asked several probes from the probe guide and determined that, since the child did not live with the parent for more than 6 months, the parent would not qualify to claim the EITC. Although the parent did not have a qualifying child, he still may have qualified to claim the credit as a single taxpayer. The probe section that addresses the EITC also contains probes that address the credit for single taxpayers.
- The taxpayer stated he and his wife were separated. He pays child support and medical expenses for his two children. His wife's boyfriend claims the children. The taxpayer wanted to know if he should go to court to obtain a court order stating that he can claim the children. The telephone assistor did not conduct the applicable probes for dependents to determine if the taxpayer was eligible to claim the children. Instead, the telephone assistor concurred with the taxpayer's intent to pursue legal action.

The following table provides the tax law topic areas for which the telephone assistors most often did not follow the probe guide during the 84 incorrect calls.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

**Figure 3: Analysis of Errors
by Tax Law Topic Area for Probe Responses**

Tax Law Topic Area	Error Rate
Filing Status and Dependents	28%
Credits and Standard Deductions	23%
Small Business	12%
Interest and Dividends	11%
Pensions and Social Security Benefits	11%
Total for All Others	15%

Source: TIGTA results for calls monitored between January 14 and March 14, 2002.

Each year prior to the filing season, the IRS hires and trains several hundred telephone assistors to help answer the millions of calls it receives during the filing season. According to a General Accounting Office report,¹² the IRS has had significant challenges in hiring, training, and retaining its telephone assistors in the past. Even though the IRS has begun to specialize telephone assistors in tax law topic areas, the inexperience of the telephone assistors could have contributed to the inaccuracy of the responses that were provided.

Also, we observed that the probe guide was not always easy to follow. The probe guide is a comprehensive document that is organized by tax law topics. The guide has many instances where the information for a tax law topic is linked to another tax topic.¹³ For example, for determining if a person can be claimed as an exemption, the probe guide refers the telephone assistor to *Your Federal Income Tax* (Publication 17), Chapter 2 (Filing Status) and Chapter 3 (Personal Exemptions).

Early in the 2002 Filing Season, we observed that many of the automated links did not work. If the telephone assistor needed additional information, he or she had to manually

¹² *IRS Telephone Assistance: Opportunities to Improve Human Capital Management* (GAO-01-144, dated January 2001).

¹³ The IRS provides telephone assistors access to an electronic version of the probe guide and other tax research sources.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

locate the referenced information on the computer. This time-consuming process may have also contributed to the telephone assistors responding incorrectly to taxpayers' questions. However, towards the end of our monitoring period, we observed that many of the links were made active.

Telephone assistors did not give accurate responses when the probe guide was not applicable and other tax sources were used

In 411¹⁴ calls we monitored, telephone assistors were required to research beyond the probe guide to answer the taxpayer's question. In 80 (49 percent) of 164 incorrect calls, telephone assistors did not provide the taxpayer with the correct or complete response to his or her question when the probe guide did not contain the applicable tax topic and the telephone assistor relied on other tax sources such as tax publications and instructions. For example:

- A single taxpayer completed his Form 1040 up to line 39 (taxable income), where he had entered \$21,000. He wanted assistance in calculating the tax on line 40. The telephone assistor referred the taxpayer to page 33 of the Form 1040 instruction booklet (per the instructions on the Form 1040) and, in error, began to assist him in completing a worksheet found on page 33. Instead, the telephone assistor should have referred the taxpayer to the tax tables, also noted on page 33 of the instruction booklet. After completing the worksheet, the telephone assistor advised the taxpayer to enter \$21,000 as his tax on line 40. The telephone assistor never referred the caller to the tax table and overstated his tax liability by over \$17,000.
- A tax preparer called regarding the amount of the penalty for excess contributions to a tax sheltered annuity plan. He stated that he thought the amount of the penalty was 25 percent. The telephone assistor

¹⁴ Note: The 322 cases above and the 411 cases here do not add to the 736 total cases reviewed because 6 cases actually fell in both categories, while 9 cases did not fall in either category.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

concurring with this amount; however, *Tax Sheltered Annuity Plans (403 (b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations* (Publication 571) states that the penalty is 6 percent and only applicable in certain situations. The telephone assistor did not gather additional information to determine whether the situation required that a penalty be assessed. As a result, the tax preparer may have overstated the tax liability by 19 to 25 percent. Also, we noted that, for this call, the tax preparer stated that he or she had been transferred seven times before obtaining this answer.

- A single taxpayer attempted to report his miscellaneous income (from Form 1099-MISC) using the Telefile system.¹⁵ He inquired about whether he could do so, and the telephone assistor informed him that he could still use the Telefile even though he clearly did not meet the eligibility requirements of having only Wage and Tax Statement (Form W-2) earnings. There is a probe section for the Telefile that states the taxpayer must be a Form 1040EZ¹⁶ filer to qualify to use the Telefile. A telephone assistor would have to know that a taxpayer can file a Form 1040EZ when he or she has only Form W-2 wage income to report.

The following table provides the tax law topic areas for which the telephone assistors most often incorrectly applied or interpreted the tax law in the 80 calls.

¹⁵ Telefile allows you to file your simple Federal income tax return using a touch-tone telephone.

¹⁶ The simplest of the three Individual Income Tax Return forms (1040EZ, 1040A, and 1040).

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

**Figure 4: Analysis of Errors by Tax Law
Topic Area for Research Responses**

Tax Law Topic Area	Error Rate
Filing Status and Dependents	29%
Small Business	16%
Tax Law Backup	12%
Credits and Standard Deductions	12%
Total for All Others	31%

Source: TIGTA results for calls monitored between January 14 and March 14, 2002.

Approximately 501,000¹⁷ of the approximately 2.6 million taxpayers the IRS handled (for the 12 tax law topics we reviewed) through its toll-free tax law assistance between January 14 and March 14, 2002, potentially were not provided with complete and accurate responses to their tax law questions. This could result in future IRS contacts with the taxpayers regarding errors during the processing of their tax return or on compliance issues.

The Commissioner, Wage and Investment Division, disagrees with our outcome measure, stating, “I do not believe achieving 100 percent accuracy is attainable despite our desire to do so. As a result, I do not agree with the premise of your benefit analysis that assumes IRS would provide perfect answers if we followed your recommendations.”

Regarding the IRS’ disagreement with our outcome measure, we do not claim that the IRS would achieve 100 percent accuracy by following our recommendations. However, our analysis results provided the causes cited for the errors we identified. Our recommendations address these causes, which accounted for 100 percent of the errors we identified. We believe appropriate corrective action to our recommendation would result in these types of errors

¹⁷ We used the 19 percent error rate (based on the 81 percent quality rate) the IRS determined for the period January 14 and March 14, 2002. Also, this estimate does not take into account that some taxpayers may have called more than once or the call may have represented more than one taxpayer.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

being dramatically reduced if not eliminated. However, we have not claimed 100 percent achievement as follows: (1) we did not use our 22 percent error rate (which was based on a judgmental sample) but rather used the lower 19 percent error rate reported by the IRS and (2) we have claimed that these benefits are potential rather than actual achievements. We certainly believe that our recommendation has the potential for positively affecting as many as the reported taxpayers.

Recommendation

1. The Commissioner, W&I Division, should improve the probe guide by making it more efficient to research and more comprehensive by including probes that cover more tax topics. In making the guide more efficient for research, management should ensure the links between tax law topics are effectively working at the beginning of the filing season.

Management's Response: Management agreed with this recommendation, stating that it is consistent with their existing process to review and improve the guide. A yearly review is conducted of input from various sources, which include quality reviewers, managers, and error pattern analyses. This yearly review is currently underway. The IRS will consider our input for improvements as part of this process. In addition, special efforts are being aimed at ensuring electronic links are fully operational when the revised guide is released.

There Is Opportunity for the Internal Revenue Service to Enhance Service to Taxpayers

There is also opportunity for the IRS to enhance the service it provides to taxpayers. During 25 calls, telephone assistants could have provided time frames for expecting a follow-up contact from the IRS or the receipt of a tax form or publication that was requested. For example, taxpayers were not given time frames in the following circumstances:

- 8 taxpayers – when to expect a follow-up contact.
- 10 taxpayers – when to expect receipt of a tax form or publication.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

- 3 taxpayers – when to expect processing of tax forms.
- 4 taxpayers – for other issues such as when to expect tax refunds or the hours of operations at local IRS offices.

In eight other calls, the IRS missed the opportunity to educate the taxpayer on problematic compliance areas, such as dependents issues, to avoid potential compliance contacts in the future. The following examples illustrate the IRS' missed opportunities to educate the taxpayer:

- A taxpayer's only income was from social security disability. She wanted to know that if someone else claimed her and her children as dependents, whether the filer would also have to claim the social security disability income on the tax return. The telephone assistor advised the taxpayer that the filer would not be required to include the social security disability as income on his or her tax return. This was a correct answer; however, the IRS had the opportunity to help the caller determine if she or her children could be claimed as dependents on someone else's tax return.
- A taxpayer had 2 children, her income was \$27,000, and she knew she qualified for the EITC. She wanted to know the amount of the credit she qualified for. The telephone assistor advised the taxpayer that, based on her income, the credit was \$1,779 for 2 children. This may have been a correct answer depending on whether the taxpayer had non-taxable income. The IRS had the opportunity to educate the taxpayer concerning sources of non-taxable income that could affect the amount of the EITC she qualified for.

Presently, there are no IRS procedures that require telephone assistants to address these circumstances during the call. Although these numbers were few, reducing taxpayer burden is a fundamental challenge facing the IRS. Changing and complex tax laws contribute to the challenge. The taxpayers rely on the IRS for quality assistance in helping them to understand and apply these changing and complex laws in order to fulfill their tax obligations and comply with the tax law. These calls maybe among the few opportunities

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

the IRS has to educate the taxpayer and potentially avoid future contact either during processing of the tax return or on compliance issues.

Recommendation

2. The Commissioner, W&I Division, should assess the probe guide for opportunities to provide or improve guidance to telephone assistors. For example,
 - (1) consider requirements to inform taxpayers of the time frames for expecting a follow-up contact,
 - (2) identify tax law topics that relate to known problematic compliance areas and other areas causing the taxpayer and the IRS burden, and
 - (3) evaluate the need to add tax law topics that are not covered in the guide and clarify those already covered, especially those identified as being potential problem areas.

Management's Response: IRS management does not agree with this recommendation. Specifically, while they will encourage CSRs to provide time frames for appropriate tax law topics, they do not believe it is an essential element for a correct and complete response and will not require it.

Additionally, they do not plan to address educating callers on known compliance problems unless the caller raises the issue. The IRS believes to do so would increase the length of customer contacts without any demonstrated correlation to future compliance. It also believes that probing for compliance issues beyond questions posed by callers may result in negative perceptions of IRS service.

Lastly, they disagree with the recommendation to evaluate the need to add tax law topics that are not covered by the probe guide, especially those identified as being potential problem areas. They point out that they already have a process to review and update the guide and do not agree there is a need for a new or revised process.

Office of Audit Comment: We disagree with management's position on this recommendation. First, we believe that providing time frames for follow-up contact is a vital part of

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

customer service. Secondly, we do not advocate probing areas unrelated to the initial question posed by callers. However, many opportunities exist to expand a call into related areas that are known problematic issues and help to further educate taxpayers and potentially avoid compliance problems with taxpayers who have already shown an interest in obtaining advice. We disagree that taxpayers would negatively view related probing and education.

Lastly, we do not specifically recommend that the IRS develop a new review process or revise the existing one. Our recommendation is that the IRS evaluate the inclusion of additional topics, especially those that relate to potential problem areas. This could be done as part of the current review process, as with the corrective action to Recommendation 1.

We recognize that our recommendation to enhance service could increase the time spent by telephone assistors when answering these types of questions. However, we believe this would help the IRS achieve its goal of one-stop service and move the IRS closer to meeting its biggest near-term challenge of providing top-quality service to each taxpayer in every transaction. Moreover, we believe that, from a taxpayer's point of view, this would be time well spent.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide an indication of the quality of the Internal Revenue Service's (IRS) toll-free telephone assistance for tax law questions during the 2002 Filing Season.

We monitored a judgmental sample¹ of 736 of approximately 2.6 million toll-free tax law calls received during the 2002 Filing Season between January 14 and March 14, 2002. We remotely monitored live tax law calls that came into 14 tax law call sites and covered 12 tax law topic areas for individual taxpayers. The judgmental sample included calls monitored during all operating hours in which the IRS provided telephone assistor support.

In order to accomplish our objective, we:

- I. Determined if individual taxpayers received quality assistance when they called the IRS' toll-free telephone system for answers to their tax law questions.
 - A. Developed a sampling plan with the assistance of a contracted statistician. We used IRS data for the 2002 Filing Season on projected call volumes by call site and by tax law topic area to design a sampling plan that provided a weighted representation of all call sites and tax law topics. We based the plan on the assumption that each auditor would remotely monitor approximately two calls per hour on the days they were assigned to monitor. Generally, we conducted monitoring Monday through Friday between 7:00 a.m. and 4:59 p.m. Each auditor was also assigned to monitor calls during one late evening between 5:00 p.m. and 11:59 p.m. and a Saturday between 9:00 a.m. and 4:59 p.m. These calls were all monitored within the test period of January 14, 2002 through March 14, 2002.
 - B. Developed a monitoring schedule with the assistance of a contracted statistician that was representative of the IRS' hours of operation at the 14 toll-free tax law call sites. The call times were randomly assigned based on step I.A. above.
 - C. Designed a call transcription form to manually capture the conversation when we monitored the call. We also designed an electronic input form to capture the information into our database so that we could analyze our results for quality.
 - D. Determined the level of quality for telephone assistors' responses to the 736 calls in our sample.
 1. Conducted on-line monitoring as required by the monitoring schedule.

¹ We did not use a statistically valid sample due to resource constraints.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

2. Transcribed the conversation between the taxpayer and the telephone assistor. We transferred the information onto the electronic data input form.
3. Evaluated the telephone assistors' responses for accuracy and completeness using resource materials such as the Customer Service Probe and Response Guide, the IRS' tax publications, the Internal Revenue Manual, and other tax references. We also used the applicable reference sources to determine if the telephone assistors followed required internal procedures. The reference sources we used were consistent with the sources available to the telephone assistors. We obtained concurrence with IRS managers in the Wage and Investment Division on our 164 calls with errors.
4. Analyzed our results and compared them to the IRS' quality review results during the 2001 Filing Season for trends. We also analyzed the results from our sample during the 2002 Filing Season for trends, causes of errors, and indications of areas needing improvement or enhancements to service.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment
Income Programs)
Stanley Rinehart, Director
Patricia Lee, Audit Manager
Gregory Dix, Senior Auditor
Jerry Douglas, Auditor
Charlene Elliston, Auditor
Andrea McDuffie, Auditor
Geraldine Vaughn, Auditor

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

Appendix III

Report Distribution List

Commissioner N:C
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Commissioner, Small Business/Self-Employed Division S
Chief, Customer Liaison S:COM
Director, Customer Account Services W:CAS
Director, Research, Analysis, and Statistics of Income N:ADC:R
Director, Strategy and Finance W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Commissioner, Wage and Investment Division W
 Commissioner, Small Business/Self-Employed Division S
 Director, Customer Account Services W:CAS
 Director, Research, Analysis, and Statistics of Income N:ADC:R

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 501,000¹ taxpayers (see page 8).

Methodology Used to Measure the Reported Benefit:

We used the Internal Revenue Service's (IRS) data to determine the number of taxpayers that may be burdened as the result of the IRS providing incorrect or incomplete responses to tax law questions. According to the IRS, telephone assistors handled approximately 2.6 million tax law calls (for the tax law topic areas we reviewed) from individual taxpayers through its toll-free telephone system between January 14 and March 14, 2002. The source of the IRS' data is the Enterprise Telephone Data system.²

We computed the potential burden to the approximately 501,000 taxpayers by applying the IRS' 19 percent error rate (based on its 81 percent quality rate for the period January 14 through March 14, 2002) to the approximately 2,637,000 tax law calls handled by telephone assistors for the 12 tax law topics we reviewed during this period.

We did not validate the IRS' data.

Management's Response: The Commissioner, Wage and Investment Division, disagrees with our outcome measure, stating, "I do not believe achieving 100 percent accuracy is attainable despite our desire to do so. As a result, I do not agree with the premise of your benefit analysis that assumes IRS would provide perfect answers if we followed your recommendations."

Office of Audit Comment: We do not claim that the IRS would achieve 100 percent accuracy by following our recommendations. However, our analysis provided the causes cited for the errors we identified. Our recommendations address these causes, which accounted for 100 percent of the errors we identified. We believe appropriate corrective action to our recommendation would result in these types of errors being dramatically reduced if not eliminated. However, we have not claimed 100 percent achievement as follows: (1) we did not use our 22 percent error rate (which was based on a judgmental sample) but rather used the lower

¹ This estimate does not take into account that some taxpayers may have called more than once or the call may have represented more than one taxpayer.

² The purpose of the Enterprise Telephone Data system is to provide timely and accurate data on the IRS' toll-free telephone system activity.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

19 percent error rate reported by the IRS and (2) we have claimed that these benefits are potential rather than actual achievements. We certainly believe that our recommendation has the potential for positively affecting as many as the reported taxpayers.

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

Appendix V

**Volume of Toll-Free Tax Law Calls Handled by Telephone Assistors,
by Tax Law Topic Areas, During the 2002 Filing Season**

The table below lists the volume of toll-free tax law telephone calls handled by Internal Revenue Service (IRS) telephone assistors, by tax law topic areas, during the 2002 Filing Season. The tax law topic areas the IRS monitored for quality and included the results of in its quality rate for the 2002 Filing Season are highlighted.

Tax Law Topic Areas	Volume of Calls Handled
Filing Status and Dependents-English	1,397,567
Filing Status and Dependents-Spanish	50,980
Interest and Dividends-English	574,940
Interest and Dividends-Spanish	3,435
Credits and Standard Deductions-English	499,900
Credits and Standard Deductions-Spanish	6,689
Small Business-English	489,080
Small Business-Spanish	6,955
Tax Law Backup-English	302,679
Tax Law Backup-Spanish	12
Earned Income Tax Credit-English	266,286
Earned Income Tax Credit-Spanish	4,776
Pensions and Social Security Benefits-English	254,488
Pensions and Social Security Benefits-Spanish	2,599
Individual Retirement Arrangement-English	198,233
Individual Retirement Arrangement-Spanish	1,850
Estimated Taxes-English	185,906
Estimated Taxes-Spanish	4,818
Schedule D, Sale of Home-English	39,797
Schedule D, Sale of Home-Spanish	2,295
Advance Tax Law – Small Business/	765

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

Tax Law Topic Areas	Volume of Calls Handled
Self-Employed-English	
Advance Tax Law – Small Business/ Self-Employed-Spanish	0
Advance Tax Law – Wage and Investment-English	19
Advance Tax Law – Wage and Investment-Spanish	28
Wage and Investment Procedural-English	1,521,092
Wage and Investment Procedural-Spanish	86,500
R-Mail ¹ English	482,046
R-Mail-Spanish	14,670
Disaster Relief-English	19,034
Disaster Relief-Spanish	2,966
Small Business Procedural-English	17,077
Small Business Procedural-Spanish	836
Puerto Rico 8812 Agents ² English	4,222
Puerto Rico 8812 Agents-Spanish	35,911
Area Distribution Center Forms	3,263
Taxpayer Assistance Centers Tax Law-English	1,292
Taxpayer Assistance Centers Tax Law-Spanish	8
Puerto Rico-Local-English	603
Puerto Rico-Local-Spanish	7,068
Puerto Rico Non NTA Transfers ³	393
Total Calls Handled	6,491,078

¹ Questions answered by return telephone call or electronic mail.

² Questions on the Additional Child Tax Credit, Form 8812.

³ Other than National Taxpayer Advocate transferred calls.

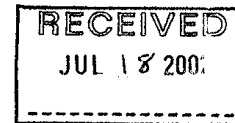
**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

Appendix VI

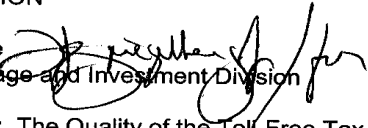
Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308
July 18, 2002



**MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION**

FROM: John M. Dalrymple 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report: The Quality of the Toll-Free Tax Law
Assistance During the 2002 Filing Season Improved; However
More Can Be Done to Improve Quality and Enhance Service
(Audit # 200240008)

Providing quality customer service is a challenging goal for all service-oriented, private and public organizations. A major goal for the fiscal year 2002 Toll-Free telephone program was to improve the accuracy of our responses to taxpayers. We have improved our tax law quality rate from 74 percent in 2001 filing season to over 81 percent this year. This improvement is a noteworthy accomplishment and an accurate measurement of our performance using a statistically sound sampling process. While we are pleased with our progress, we will continue our efforts to improve the accuracy and quality of Toll-Free telephone customer service.

Your recommendations are directed to changes and improvements to our Probe and Response Guide (the guide). I assure you that we are constantly seeking to improve the tools we provide to our Customer Service Representatives (CSR). We recognize the quality and usability of the guide directly impacts the ability of our CSRs to accurately respond to customers. Highlights of some of our efforts are:

- Periodic improvements and changes to the guide throughout the year.
- A yearly revision to the entire guide, based on user input and statistical quality review results. We will format this year's guide to be more user friendly.
- Supplemental training on the modifications we are developing for the next release of the guide.
- A study we conducted to determine the availability of off-the-shelf software that focuses on decision tools for tax law inquiries.
- A prototype we are conducting with a vendor to evaluate their ability to improve the efficiency and effectiveness of a small number of guide topics.
- An Integrated Navigation System for Tax Law Assistors for use on the Servicewide Electronic Research Project system that will link to the guide. The

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

2

new technology will actually "map" the issues and key words so the research is done and the needed information is displayed quickly.

In concept, I agree that in addition to answering their specific questions, each taxpayer contact is an opportunity for us to inform and educate the taxpaying public on problematic compliance issues. However, we must consider the public perception and the cost of individualizing this approach, particularly in light of the fact that we have difficulty meeting the demand for customer service calls. Questioning, probing, or relaying information a taxpayer has not asked for is contrary to our vision of customer service and not an efficient use of our limited human resources. Also, adding even a few seconds per call dramatically alters our ability to help other customers. We offer many opportunities outside the time constraining parameters of the telephone system dedicated to providing taxpayers information, education, and assistance. These programs range from the automated telephone (TeleTax) and Internet services to group and community-based educational outreach efforts. Tax law and other face-to-face services are provided at IRS Taxpayer Assistance Centers throughout the nation and individual return preparation assistance is available through our Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs.

Striving for a 100 percent accuracy rate for Toll-Free tax law assistance, as described in your Outcome Measures, is a worthy goal to pursue. However, due to the complexity of the tax law and the myriad opportunities for error in applying it to unique facts and circumstances orally expressed by individual callers, I do not believe achieving 100 percent accuracy is attainable despite our desire to do so. As a result, I do not agree with the premise of your benefit analysis that assumes IRS would provide perfect answers if we followed your recommendations.

Our comments on your recommendations are as follows:

RECOMMENDATION 1

The Commissioner, (W&I) Division, should improve the probe guide by making it more efficient to research and more comprehensive by including probes that cover more tax topics. In making the guide more efficient for research, management should ensure the links between tax law topics are effectively working at the beginning of the filing season.

ASSESSMENT OF CAUSE

The results from our Centralized Quality Review support your observation that when telephone assistors do not give the taxpayer a complete and accurate response, it is because assistors did not follow the probe guide, or they did not correctly interpret or apply the tax law when they referred to tax publications, instructions, and other tax references. We also recognize the guide has many instances where the information for

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

3

a tax law topic is linked to another tax topic. In the early weeks of the Filing Season, many of the automated links did not work correctly, requiring assistants to manually locate the reference material.

CORRECTIVE ACTION

We agree with this recommendation, which is consistent with our existing process to review, improve, and update the guide throughout the year. In addition, a task group yearly reviews input we receive from CSRs, managers, quality reviewers, and analyses of error patterns noted by our Centralized Quality Review staff. We make improvements based on this input. The yearly review process is underway. We will consider your input for improvements as part of that process. We are making a special cross-functional effort to ensure electronic links are fully operational when we release the revised guide.

IMPLEMENTATION DATE

January 1, 2003

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Accounts Management

Director, Customer Account Services

Commissioner, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

Accounts Management Program, Policy, and Guidance staff members will monitor the progress of the revisions and improvements to the guide. They will report implementation problems or delays to the Program Manager.

RECOMMENDATION 2

The Commissioner, W&I Division, should assess the probe guide for opportunities to provide or improve guidance to telephone assistants. For example: (1) consider requirements to inform taxpayers of the time frames for expecting a follow-up contact (2) identify tax law topics that relate to known problematic compliance areas and other areas causing the taxpayer and the IRS burden, and (3) evaluate the need to add tax law topics that are not covered in the guide and clarify those already covered, especially those identified as being potential problem areas.

ASSESSMENT OF CAUSE

CSRs are not required to address expected time frames for contact by another employee, or receipt of tax forms or publications the taxpayer requests. Telephone assistants are not required to educate the taxpayer on problematic compliance issues, such as dependents, in an attempt to avoid potential compliance contacts in the future.

The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service

4

CORRECTIVE ACTION

We do not agree with this recommendation. With regard to the specific components of the recommendation we have the following comments:

- (1) You recommend that we consider requirements to inform taxpayers of the time frames for expecting a follow-up contact. CSRs will be encouraged to provide time frames as incorporated in the guide for appropriate tax law topics. However, we do not plan to establish this as a requirement or to score an omission of such time frames as a defect for our quality measurement since we do not agree this is an essential element for a correct and complete response
- (2) You recommend that we identify problematic tax law issues related to known compliance problems and educate callers in an attempt to avoid potential compliance contacts in the future. We do not plan to address these areas in the guide or to require our CSRs to probe for them unless raised by the caller. To do so would increase the length of customer contacts without any demonstrated correlation to future compliance. We also believe that probing for compliance issues beyond questions posed by callers may result in negative perceptions of our service among taxpayers that initiate these contacts with the IRS in an effort to comply with the law.
- (3) You recommend that we evaluate the need to add tax law topics that are not covered, especially those identified as being potential problem areas. As stated earlier, we already review and update the guide throughout the year and conduct an annual in-depth analysis and revision that includes input from users and quality analysis results. For example, the next revision of the guide has the following new topics as a result of user feedback:
 - Individual Tax Identification Number (ITIN)
 - Retirement Savings Contribution Credits
 - Penalties for Retirement Plans
 - New Allowances for Teachers as Employee Business Expense.

This type of improvement process, including the need for new topics or expanded information on problem areas, has been in place since the initial use of the guide, and we do not agree there is a need for a new or revised process.

IMPLEMENTATION DATE

N/A

**The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved;
However, More Can Be Done to Improve Quality and Enhance Service**

5

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Accounts Management

Director, Customer Account Services

Commissioner, Wage and Investment Division

If you have any questions, please call me at (202) 622-6860, or Ron Watson, Director,
Customer Account Services at (404) 338-8910.